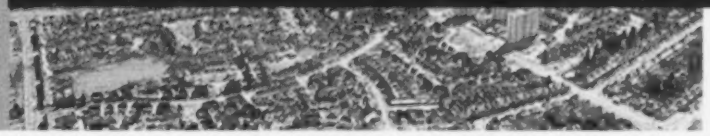
HOUSING MARKET OUTLOOK

Kelowna CMA



Canada Mortgage and Housing Corporation

Date Released: Second Quarter 2008

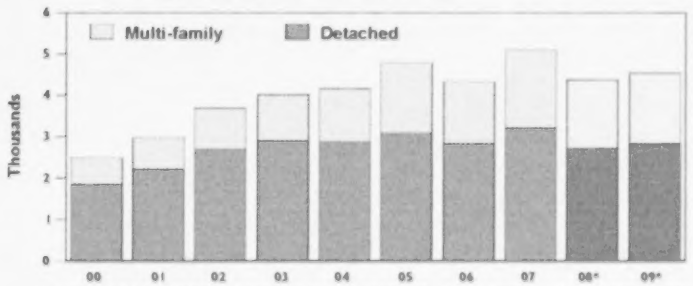
Existing Home Sales Down in 2008

Sales of existing housing will decline in 2008, dropping back from 2007's record high. Demand will soften as buyers pull back in response to rising costs and slower economic and employment growth. Stronger competition from US resort markets and growing number of resort developments elsewhere in BC will also contribute to fewer sales. Alberta buyers, a key source of condominium demand, are expected to be less active in 2008.

Despite fewer sales this year, the demand outlook in Kelowna is positive. In-migration will fuel demand for housing. Rising wages together with low interest rates will also help support high levels of sales and new home construction in 2008. Kelowna will continue to attract buyers seeking second residences and resort homes. Expect sales to pick up in 2009 as the US and Canadian economies see stronger growth.

Figure 1

Existing Homes Sales Pull Back in 2008



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HOME TO CANADIANS

Sales of detached units will drop by 15 per cent this year, most of the decline occurring in the first half of 2008. The supply of active singles listings has ballooned to the highest April level since 2001, reduced demand and high levels of new home construction boosting supply. The prospect of big gains in home equity has also drawn more sellers into the marketplace. The $600,000 plus price range has seen the biggest increase in new listings this year.

Buyers with equity from previous homes account for the lion's share of detached home sales. This group includes retirees and move-up and move-down buyers. More first-time buyers are now turning to higher density housing, representing a significant shift in buyer attitudes. Price relative to the cost of detached housing is the motivating factor. Detached units priced at less than $400,000 currently account for less than ten per cent of listings, down from nearly 60 per cent just three years ago.

The average annual sale price of a detached unit recorded double-digit increases for the sixth straight year 2007. Expect the pace of price growth to begin slowing in 2008 as the market adjusts to rising supply and reduced demand. The average house price will climb 10 per cent to $560,000 this year and another five per cent to $588,000 in 2009.

Rutland, Westbank, Glenrosa and the Core area will be the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid-priced detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

Sales of existing townhouses and apartments will record a smaller decline than detached units. Demand for multi-family housing has become more broadly-based during the past several years. Retirees, move-down buyers, others seeking resort homes and second residences and more recently, first-time buyers are key sources of condominium and townhouse sales. Sustained low vacancy rates, rising rents and low cost of financing have led to more interest from investors intending to purchase and rent out units. The spectacular growth in demand for resort-oriented homes seen since 2002 is expected to cool in 2008. With the Canadian and US dollars hovering near par and US home prices trending down, BC resorts will face stronger competition from an increasingly well supplied US resort market. Also many resort developments have come on stream elsewhere in the Okanagan and across the BC southern interior and more are moving through the approval process – all competing for the same buyer group. Expect fewer Alberta buyers this year, especially those relying on growth in home equity to finance the purchase of resort homes and second residences. Alberta real estate markets have seen price growth slow following huge gains in 2004, 2005 and 2006.

The supply of active apartment condominium listings rose to the highest monthly level ever in April, supply more than doubling from the same month last year. High levels of construction activity have pushed up supply, with condominium units currently under construction or less than one year old accounting for 55 per cent of active listings. More townhomes are now also available for sale. Apartment and townhomes will see more modest price gains in 2008, reflecting both reduced demand and intense price competition.

Fewer sales, rising supply and prospects of more modest price gains indicate Kelowna's resale market is moving to a balanced from a seller's market position.

Figure 2

Price Growth to Slow

Housing Starts Stay Near Record High in 2008

Kelowna housing starts will total 2,750 units in 2008, down slightly from last year's record high. Strong demand for multi-family housing will keep new home construction at high levels in 2008. Expect housing starts to decline next year, dropping back in response to reduced demand, rising construction costs and stronger competition from a well supplied resale market.

Starts of detached units will edge lower in both 2008 and 2009. Like the resale sector, retirees, move-down and move-up buyers will remain the focus of new singles demand.

Lifestyle oriented housing and neighbourhoods which bring together the right combination of housing types, setting and amenities, will stay front and centre. Larger, multiple-phase developments have become the norm. Lake and valley view properties will remain the strongest performers.

Lot supply has barely kept pace with demand, leaving developers scrambling to bring more building lots on stream. Single detached home development will shift outward as municipalities extend infrastructure into new areas. Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of building lots - have moved ahead with their final phases. Lake Country, North Glenmore, Black Mountain, Kirschner Mountain, the Shannon Lake area and most recently, Rutland Bench, have seen new, multiple-phase subdivisions come on stream in the past 18-24 month period.

Rising lot prices will continue to push up the cost of new housing. Lot prices have shot up. The annual median lot price reached $210,000 in 2007. The $180,000-$200,000 price range now represents the low end in most new subdivisions. Better lake and valley view lots are commanding prices in the $275,000-$325,000 plus range.

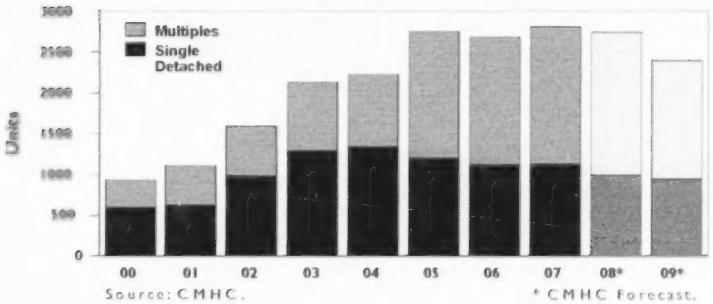
Singles Starts Follow Lot Supply

Neighbourhood	2007	2003
Black Mountain	80	43
Core Area	36	189
Dilworth Mountain	30	36
Glenmore	35	53
Lake Country	141	35
Lakeview Heights	61	104
Lower Mission	23	58
North Glenmore	81	18
Shannon Lake	107	64
S.E. Kelowna	30	77
Upper Mission	210	257
Westbank	100	12
West Kelowna	93	96

Source: CMHC

Figure 3

Housing Starts Decline - Remain at High Levels in 2008 and 2009



Source: CMHC. * CMHC Forecast.

Strong demand for upscale homes, rising lot prices and extended construction periods have all contributed to rising new home prices. The average time to build a detached unit has increased from four months in 2000 to just over nine months by 2007. A shortage of labour, larger, more complex homes and challenging hillside building sites have all contributed to longer build times. Upward pressure on labour costs and lot prices will moderate as demand begins to ease.

Expect the annual average new house price to jump 10 per cent to 690,000 in 2008 and another seven per cent next year.

Apartment condominium starts will climb to a record high in 2008, despite a much more competitive market. Retirees, move down buyers and the resort and lifestyle markets will all remain key sources of condominium demand in 2008. The latter has become the fastest growing segment of Kelowna's condominium market. Also, with few detached units available for less than $400,000, multi-family housing is attracting more first-time buyers. Sales among projects targeting first-time buyers have been strong. Apartment condominiums will account for more than half of new home starts in 2008.

Though condominium starts are on the rise, both absorptions and pre-sales have begun to moderate. As in the existing home sector, demand for new homes is softening. The inventory of complete and unoccupied units, while low, is edging higher does not include units made available for resale through the assignment of contracts.

With the supply of active condominium listings now at an all time high, the new condominium market will face much stronger competition in 2008. Reduced demand, in combination with high levels of construction activity and increased competition from the resale sector, point to some potential for oversupply this year.

Kelowna's condominium market continues to move in new directions. Kelowna is seeing larger projects, many including a mix of low and high rise apartment condominiums and townhouses. More and even higher towers are on the way. Mixed residential and commercial use projects are now the norm.

Condominium prices have increased sharply with each new project pushing the price envelope to new highs. The uptick in prices reflects both rising construction costs and strong demand for upscale homes. Longer build times due to shortages of skilled labour have also contributed to rising costs. Balancing pre-sales with rapidly escalating construction costs has emerged as a key challenge for developers of multi-family housing. Most builders have now implemented phased pricing schemes, releasing blocks of units at prices which take into account changing construction costs.

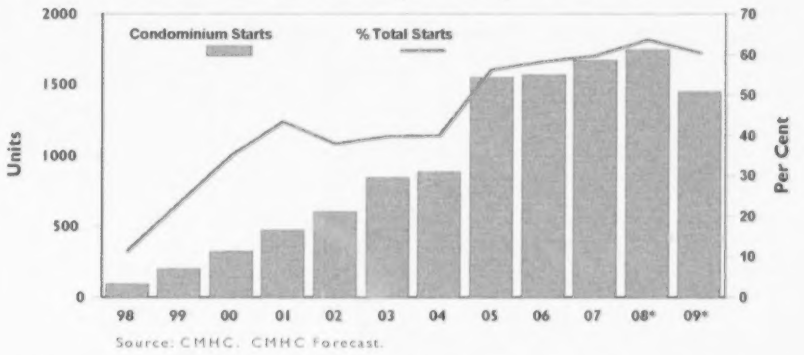
Townhouse projects offering entry level and mid-priced units will remain strong performers in 2008, but will also face stronger competition from better supplied existing home markets. Look for new projects in the Upper Mission, North Glenmore, Black Mountain and the Westbank areas.

Kelowna will see more rental housing starts this year and next. Construction will begin on a three phase, 144 unit apartment building in 2008. Despite sustained low vacancy rates, the Kelowna area has seen no significant additions to the stock of privately-initiated, multiple unit rental housing since 2005. The viability of new multi-family rental housing is problematic given achievable rents and high land prices and construction costs. The scarcity of sites is also a challenge for developers of rental housing.

The secondary rental market, comprised mainly accessory suites and investor-owned condominiums, has been the biggest source of new rental housing in recent years. More condominiums may become available as investor-owned rentals as the condominium market adjusts to reduced demand and increased supply. The City of Kelowna announced construction will begin on up to 140 units of publicly-initiated rental housing in 2009. This housing is intended to accommodate clients with special needs.

Figure 4

Multi-Family Housing in Demand - Price and Lifestyle Key Drivers



Source: CMHC, CMHC Forecast.

Employment Growth Fuels Housing Demand

The Kelowna area economy will expand at a more modest pace in 2008. New jobs will be added in the construction, trade, health care, personal and other service related industry sectors. Solid employment growth will, in turn, boost in-migration and demand for housing. The forest products industry will face challenging years in both 2008 and 2009. Reduced demand for softwood lumber south of the border, low lumber prices, high Canadian dollar and supply issues stemming from the pine beetle epidemic have led to some job losses at Okanagan operations. With the Canadian dollar now at par with US currency, the Okanagan can expect to see fewer US visitors. Rising energy costs will also contribute to a drop in tourist traffic. Call centres have been hit hard by the rising Canadian dollar, operations in both Penticton and Kelowna shedding jobs. Despite ongoing uncertainty within the forest products industry and the prospect of declining tourist visits, Kelowna area employment is forecast to grow by 1.5 per cent in 2008 and 2009.

Diversification remains the Kelowna area economy's greatest strength. The Kelowna International Airport and UBC Okanagan (University of British Columbia – Okanagan campus) have emerged as key growth sectors. UBC Okanagan has become a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Kelowna's airport runway will be extended this year to accept direct overseas flights. Improved accessibility will enhance the area's appeal to both tourists and potential home buyers. Other projects include the expansion of Kelowna General Hospital to include health care services currently available only in Vancouver, an important consideration for retirees seeking to relocate to this region.

The incorporation of Westbank and other neighbourhoods located on the west side of Lake Okanagan will generate additional economic activity and employment growth. The new bridge across Lake Okanagan will open in May. Improved traffic flows and recent expansion of retail services will attract more home buyers to the West Side.

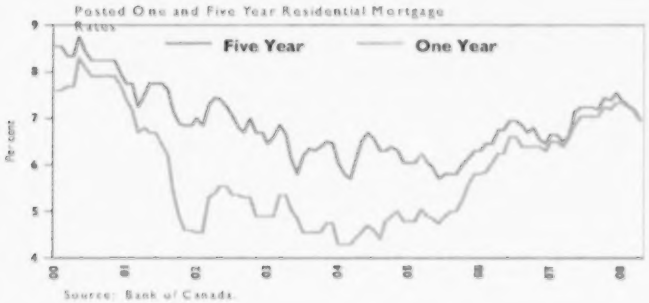
Despite job losses in some sectors, Kelowna continues to experience a shortage of workers. The shortage of labour has become a constraint to economic growth. High housing costs and near zero rental vacancy rates have emerged as a key concern among businesses seeking to attract and retain low and middle wage earners. Kelowna's unemployment rate, though expected to edge up this year, will remain near the lowest levels in over a decade.

The Kelowna area population will, exclusive of seasonal in-migrants, grow by 2.0 – 2.5 per cent in 2008.

Mortgage interest rates will remain low by historical standards. Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Figure 5

Mortgage Rates Easing in 2008



Source: Bank of Canada

Forecast Summary Kelowna CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales [1]	5,256	4,790	5,584	4,730	-15.3	4,900	3.6
MLS® New Listings [1]	7,883	7,432	9,320	11,000	18.0	10,000	-9.1
MLS® Average Price ($) [2]	352,228	432,056	507,780	560,000	10.3	588,000	5.0
New Home Market							
Starts:							
Single-Detached	1,205	1,122	1,130	1,000	-11.5	950	-5.0
Multiples	1,550	1,570	1,675	1,750	4.5	1,450	-17.1
Semi-Detached	112	170	100	100	0.0	75	-25.0
Row/Townhouse	206	268	233	275	18.0	200	-27.3
Apartments	1,232	1,132	1,342	1,375	2.5	1,175	-14.5
Starts - Total	2,755	2,692	2,805	2,750	-2.0	2,400	-12.7
Average Price ($):							
Single-Detached	422,928	538,658	629,741	690,000	9.6	740,000	7.2
Median Price ($):							
Single-Detached	374,000	469,000	549,000	604,000	10.0	646,000	7.0
New Housing Price Index (% chg) (B.C.)	4.8	6.5	6.4	6.3	-	5.5	-
Rental Market							
October Vacancy Rate (%)	0.5	0.6	0.0	0.3	0.3	0.6	0.3
Two-bedroom Average Rent (October) ($)	755	800	846	890	-	920	-
One-bedroom Average Rent (October) ($)	616	661	715	750	-	775	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	81,525	86,925	88,250	89,575	-	90,920	-
Employment Growth (%)	-1.2	6.6	1.5	1.5	-	1.5	-
Unemployment rate (%)	5.5	5.9	4.6	5.0	-	5.1	-
Net Migration (B.C.) [3]	48,444	48,276	52,999	56,350	6.3	57,100	1.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential. (3) 2007 migration data is forecasted

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